

# looking ahead

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ECONOMIC OUTLOOK  
FOR 1955

*through the Looking Ahead glass*

—FUTURE of the INDUSTRIAL  
TRADING NATIONS

ECONOMIC DEVELOPMENT  
of LATIN AMERICA

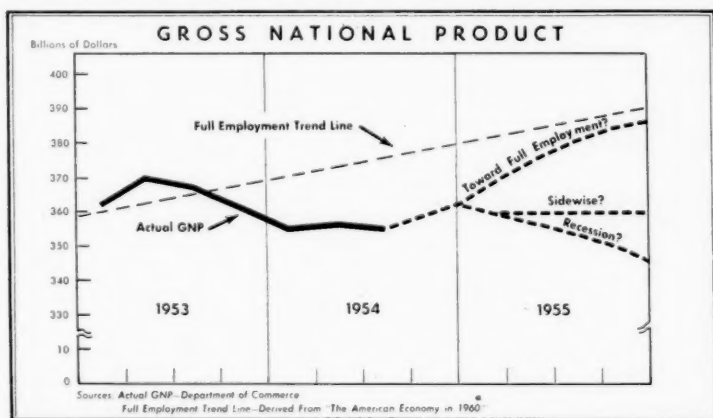
*the people of NPA*

## The Economic Outlook for 1955

by Gerhard Colm

NPA Chief Economist

AS A PRELUDE to a look ahead at 1955, a backward glance over the past two years may be useful. The following chart shows the downturn in business activity which began in the middle of 1953 and later developed into a sidewise movement which lasted from the first through the third quarter of 1954.



### Recession and Recovery 1954

THE RECESSION did not develop into a downward spiraling general depression. There was a decline in total activity by about \$10 billion (annual rate of GNP) from the full year 1953 to the third quarter of 1954. This decline was the net result of various strong opposing forces. Some major types of demand, taken together, declined by about \$20 billion while other types increased by \$10 billion. The rate of defense spending alone declined by \$10 billion; business investment in durable equipment was down by \$3 billion; and a \$2 billion accumulation of nonfarm inventories was replaced by a \$5 billion rate

## THE ECONOMIC OUTLOOK FOR 1954

Quotes from LOOKING AHEAD  
January 1954

*"It appears that aggregate demand and production in 1954 might be \$10 to \$15 billion below that of 1953."*

Gross national product in the third quarter of 1954 was \$9.4 billion below the level of the year 1953.

*"An economic decline of the magnitude indicated . . . would imply average unemployment of 3 to 4 million."*

Average unemployment for the first 11 months of 1954 was 3.3 million.

★



of liquidation. The main offsetting factors were an increase of \$5 billion in the rate of personal consumption; \$3 billion in private construction, particularly residential construction; and \$2 billion in state and local spending.

Governmental policies played a large part in sustaining business activity. In particular, tax reduction strengthened consumer and business demand and the support given the financing of residential construction was largely responsible for the increase in construction activity. A more diffuse stabilizing influence resulted from the confidence which consumers and business now hold that no recession will be permitted to develop into a serious depression. It is too early to judge whether the economic experience of the last year indicates the ability of modern society to deal successfully with the problem of the business cycle. In any case it proves that some progress in this direction has been made.

During the last quarter of 1954 a vigorous recovery movement occurred. This recovery movement was in part a seasonal upturn, particularly emphasized by the shift in the automobile industry to the production of new models. However, there are indications that the recovery movement proceeded on a broader front than would be expected if it were merely a seasonal phenomenon. For instance, there was a significant increase in the production of the textile industry, which had been in the doldrums for several years. It is probably a safe forecast to say that the upward movement which started in the fourth quarter of 1954 will carry over into the beginning of 1955.

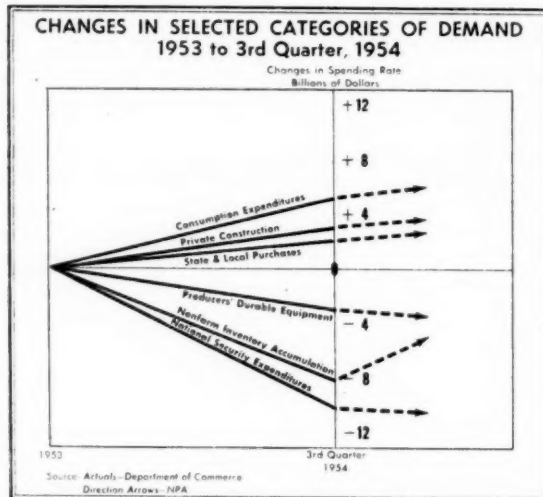
With respect to the business outlook for the whole year 1955, two questions must be asked: (1) Is it likely that the upswing which began in the fourth quarter of 1954 will continue all through 1955, or is this upswing likely to be a short-run affair which may be followed by another sidewise movement or downturn before the end of next year? (2) Is the level of economic activity which may be expected for the year 1955 as a whole likely to approximate a level of reasonably full employment?

#### The Trend of Activity Through 1955

**I**N ORDER to gauge the trend of economic activity over the coming year it may be useful to look at some of the individual components of demand.

The liquidation of business inventories which proceeded from the fall of 1953 to the fall of 1954 seems to be coming to an end. As a matter of fact, the current rise in production can be largely explained by the fact that business is now replac-

ing goods as fast, or almost as fast, as they are sold. Where inventory reduction continues, this seems to be less the result of deliberate business policy than of an inability to keep stocks abreast of sales. The present effort to maintain or rebuild inventories largely reflects the fact that consumer markets held up better than was expected. Unless markets continue to expand, however, this inventory recovery may be of short duration.



Looking at defense programs, another important demand sector which underwent substantial reduction last year, we find that the decline seems to be almost over for the time being. The Secretary of Defense said recently that defense spending was "pretty close to the bottom" for the present "cold war" era.

The rate of spending for producers' plant and equipment may also decline less rapidly in 1955 than in 1954. According to the McGraw-Hill survey of business plans for investment in plant and equipment, the rate of decline in capital spending is slowing down. The industries surveyed expected to spend about \$1.1 billion less in 1955 than in 1954—the drop between 1953 and 1954 had been \$1.5 billion. The McGraw-Hill survey does not include commercial establishments but there are indications that the capital spending of this group will rise. Thus, on balance, it seems likely that total business spending for plant and equipment will be further reduced next year but that the reduction will be mild.

According to the construction forecast made jointly by the Commerce and Labor Departments, a rise of \$1.7 billion is expected in residential construction. Residential construction was estimated at \$13.3 billion in 1954 with \$15 billion

projected for 1955. However, since residential construction in the last quarter of 1954 had already attained a level of about \$14.7 billion, almost its projected 1955 level, not much further rise over the present high rate seems to be expected. For the first time in a long period, some rise in vacancies is likely to appear in 1955.

Farm construction is expected to be somewhat lower in 1955 than in 1954. This is approximately in line with the expected slight decline in farm incomes.

State and local governments have many unfilled needs, and their rate of activity will probably continue to rise. However, the rate of expansion seems to be slackening off as some state governments are marking time in the matter of highway construction while they wait for a decision by the Federal Government as to the extent to which it will finance highway construction in the coming years.

One of the most interesting features of the 1953-54 recession was the fact that consumer expenditures pushed upward while total economic activity declined. If it could be expected that the rate of expansion in consumer purchases would continue through 1955 we could have great confidence in the sustaining power of the present upswing. It must be recognized, however, that a major factor which made for an increase in consumer income and spending during the past year—the reduction in Federal taxes—may not be present next year. At any rate, the administration has advised against tax reduction in 1955.

**T**HE CURRENT RISE in production could lead to higher employment and longer hours and thereby to a rise in earnings and disposable personal income. However, as there has been some slack in the factories, the current rise in production might not be reflected in a fully corresponding increase in employment, hours, and earnings. The introduction of technological advances, now proceeding so rapidly, could also make for a disparity between the possible rise in production and the concomitant rise in employment. Thus, under present conditions, markets might not expand to the extent necessary to support a continuation of the present upswing over a longer period of time.

It is even conceivable that some rise in the general level of economic activity might be accompanied by a rise in unemployment. The continuing rise in productivity makes possible higher output per worker. In this connection, it may be observed that the index of industrial production in manufacturing in November 1954 happened to be exactly the same as in November of 1953.

Yet employment in manufacturing industries was almost one million below that of the preceding year.

On the basis of these observations it appears that both upward and downward forces will be weaker during the coming year than during the past year. It is not likely that the sharp contraction that occurred after mid-1953 will be resumed in 1955 but, on the other hand, the upward forces which explain the current upswing may not continue all through 1955. This outlook would give us for the year 1955 as a whole an average level of activity a little higher than the level of 1954—with a possible "bulge" in the first part of the year, and a possible slackening off later.

#### The Outlook for 1955 Compared with a Full Employment Level of Activity

**T**HE EXPECTATION of a level of business activity above that of last year is in itself a confidence-inspiring factor. However, in order to fully appraise the business outlook we should do more than compare it with the preceding year; a more significant appraisal is a comparison of the expected level of activity with a projected level of reasonably full employment.

Let us assume as a probability that the level of total activity measured in gross national product at present prices would be above that of the third quarter of 1954 (\$355.5 billion) but not above that of 1953 (\$364.9 billion), say in the neighborhood of \$360 or \$365 billion. This would be a level of activity that would fall at least \$20 or \$25 billion short of a reasonably full employment level for the year as a whole. It would be a level of activity which might be associated with an unemployment of around six or seven percent of the civilian labor force, even allowing for some reduction in work-hours and temporary layoffs.

At this point it is necessary to observe that there is an inherent fallacy in this type of economic forecasting. If unemployment should rise significantly, there would undoubtedly be strong demands for government measures to support economic expansion and employment. Such a situation might lead to such measures as speeding up of the government road construction program, further tax reductions, or further measures to liberalize credit in the housing field.

No forecast is intended here as to what measures the government may or may not adopt. The only conclusion from our analysis is that some rise in activity from 1954 to 1955 is likely, but that some further adjustments in private and public policies may be needed to achieve sustained reasonably full employment during 1955.



### Thad Snow—"From Missouri"

**T**HAD SNOW—Missouri farmer, part-time economist, friend of James Whitcomb Riley, avid reader, teller of good tales, and long time member of NPA's Agriculture Committee—has written a warmhearted, witty story of his years in Indiana and in the delta country of southeastern Missouri. Mixed in with entertaining reminiscences of friends, floods, livestock, and soil is a vivid account of the reawakening of American agriculture as told in the personal terms of one who has participated in rural road building programs, controversies over flood control of the lower Mississippi, organization of the first rural credit corporation, and a sharecropper sit-down strike.

("From Missouri." From: Houghton Mifflin Co., 2 Park St., Boston. 1954. 341 pp. \$4)

### Public Finance and Fiscal Policy

**A** COLLECTION of essays written by Gerhard Colm, NPA's Chief Economist, during the years 1934 to 1954 is now available in book form. The essays center around the contribution that public finance and fiscal policy can make toward national objectives such as restoring or maintaining high-level employment, raising the standard of living, and establishing full or partial mobilization. H. Christian Sonne, Chairman of NPA's Board of Trustees, wrote the foreword. ("Essays in Public Finance and Fiscal Policy." From: Oxford University Press, 114 Fifth Ave., N.Y. 11. 1954. 392 pp. \$4.75)

### Government Research In the Social Sciences

**S**INCE June 1953 the National Science Foundation has been issuing quarterly reports on Government-sponsored research projects in the social sciences—including projects in anthropology, agricultural economics, economics, political science, sociology, social psychology, statistics, and interdisciplinary areas. Only Government-sponsored studies carried out by non-governmental agencies, such as universities and laboratories, are covered. Projects bearing security classifications are barred.

Wherever possible the following information has been obtained from each participating agency and is included in the report: the agency supporting the research; title and identification of each project; the name of the contractor and principal investigator; and the contract termi-

### —the people of NPA—

Frank  
Altschul



Vice Chairman of the NPA Board of Trustees, Frank Altschul is Chairman of the NPA International Committee and a member of its Business and Steering Committees. Mr. Altschul is a businessman—Chairman of the Board of General American Investors Company—whose interest in the humanities is expressed in active participation in such organizations as the Yale University Council (on which he is chairman of the Committee on the Social Studies), the Institute of International Education (trustee), the Woodrow Wilson Foundation (past president), the Council on Foreign Relations, Inc. (vice president and secretary), and NPA. A native of San Francisco, Mr. Altschul now lives at "Overbrook Farm" in Stamford, Connecticut. He is a Yale graduate and holds an LL.D from Bates College. In World War I, he served as captain in the Ordnance Corps of the U.S. Army and was with the American Expeditionary Force in 1918. Mr. Altschul is author of a book, "Let No Wave Engulf Us." Among his other writings is the NPA Planning Pamphlet, "Toward Building a Better America" (1949), in which he stressed that we do not have time to "blunder into the future: we must plan for it."

nation date. Projects in the social sciences are listed according to specific fields and also geographically by state and institution. The special section for agricultural economics studies is broken down into problem areas and commodities.

("Government Sponsored and Government Supported Research—Social Sciences and Interdisciplinary Areas." From: National Science Foundation, Wash. 25. Quarterly. Limited quantities available. Free.)

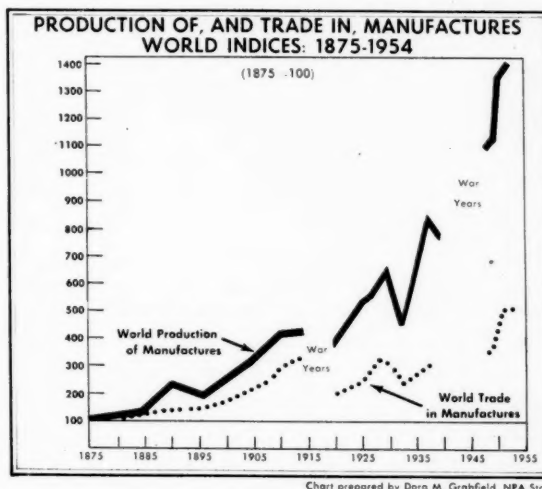
## The Future of the Industrial Trading Nations

THE ACCOMPANYING chart shows that the index of total world production of manufactures has increased nearly 1,500 percent since 1875 while international trade in manufactures has increased only 500 percent. These two rates of growth began to diverge sharply from one another after World War I, and the divergence has steadily increased since the mid-1930's, particularly in the post-World War II period. If this divergence continues to increase in the future, it is possible that the nations which specialize in exporting their own manufactures may again encounter the same kind of difficulties they experienced during the interwar period.

Obviously, these statistical aggregates conceal many component factors which modify the meaning of the trend lines in the chart. For example, the relatively self-sufficient American economy makes a major contribution to the growth of world production of manufactures but a very minor one to the growth of world trade in manufactures. For this reason, conclusions about the future of the industrial trading nations cannot simply be read off the chart. But, even with these qualifications, increasingly divergent trends in world production of, and trade in, manufactures suggest that there may again be unfavorable consequences for the industrial trading nations if world demand for imported manufactures grows at too slow a rate and if the exporting countries lack the flexibility to adapt rapidly enough to changes in the nature of world demand.

It is clear that the postwar increases in the national incomes of the leading industrial exporting nations of Western Europe have been in large part results of the fact that they were able to achieve a high level of foreign trade, both import and export. Indeed, in these countries—with their large populations and relatively slender endowments of natural resources—the key factor in the maintenance and improvement of their living standards and productive capital is their ability to sell their manufactures abroad to pay for the imported food, fuel, and industrial raw materials which they require. In contrast, the United States, whose ratio of foreign trade to national income (imports plus exports as a percent of national income) is less than ten percent, depends mainly upon the expansiveness of

its domestic market for the resources and opportunities needed for economic growth.



THE DECLINING RATIO of international trade in manufactures to world production results from certain basic changes in the world polity and economy since 1914. Most important among them are: the rise of new industrial centers like the United States and Japan; the economic transformation of the Communist areas and their subtraction from the world economy; the growing industrialization of many primary producing countries; and the increasing tendencies to national autarky generated by the political and economic insecurity and incalculability of the twentieth century. These developments are not likely to be reversed. In consequence, though international trade in manufactures will in all probability continue to grow, its increase could be at a slower and slower rate compared with the growth both of total world production and of total world trade.

A declining ratio of international trade in manufactures to total world production and to total world trade need not create any serious problems either for industrial nations not heavily dependent upon foreign commerce (e.g. the United States) or for countries whose exports consist primarily of raw materials. But for countries whose rate of economic growth is limited by the rate at which foreign demand for their manufactures grows, a declining ratio has

already symbolized trouble for them in the inter-war period and could spell trouble again in the future. For, if opportunities for the export of their manufactures fail to increase at an adequate rate, their economic life may again stagnate, as it did during the 1930's, or they may have to resort to high-cost domestic production of food and raw materials to replace imports which they could no longer afford. In either case, their competitive ability in the world market would decline, leading to further constriction of exports and intensification of the tendency toward autarky. Should this vicious circle develop, it would mean that, in the industrial countries of Western Europe, living standards would fail to grow, or might not even be maintained; their stock of productive capital would not be renewed at an adequate rate; and required resources might not be available for national defense purposes. In such circumstances, the economic health and political effectiveness of these countries would be seriously impaired.

**I**T IS POSSIBLE, therefore, that a major problem for the long term could be the increasing economic and political difficulties of those nations highly dependent upon exports of their own manufactures. What is the likelihood that this potential problem will actually arise? Or will the rate of growth of opportunities for international trade in manufactures be adequate? What can be done to influence possible developments in a favorable direction? To what extent can domestic production in these countries be substituted for imported food, fuel, and industrial raw materials without unduly impairing their competitive ability in foreign markets or contracting their living standards and rates of capital formation?

These, and many other, international economic questions have been explored by a Study Group, jointly sponsored by the National Planning Association and the Woodrow Wilson Foundation, whose 500-page final report will be published in late March or early April by Henry Holt and Co. under the title "The Political Economy of American Foreign Policy."

—Theodore Geiger

## Negro Employment Practices In Chattanooga

**D**EFINITE indications of slowly declining prejudices, gradually increasing job opportunities, and more effective utilization of the Negro in the economy of one of the South's more

productive areas—the Chattanooga Metropolitan Area—are analyzed in an NPA report released in December by the Committee of the South. This report is the last in a series of Selected Studies of Negro Employment in the South. It is a factual study, written by Professor William H. Wesson, Jr., University of Chattanooga, of actual conditions and problems as they were learned from the author's on-the-spot investigations and through interviews with management and labor officials. The entire series of these studies will soon be available in book form.

"In an area where employment practices generally follow regional and traditional patterns and do not tend toward extremes in either increasing or limiting job opportunities for Negroes," R. R. Gilbert, Acting Chairman of the Committee, points out that the developments noted in the study, "although they affect relatively few Negro workers at present, are symbols of change."

("Negro Employment Practices in the Chattanooga Area." From: NPA. 120 pp. \$1.50)

## Morris L. Cooke—"A Happy Liberal"

**A** BIOGRAPHY of Morris L. Cooke probes the ideas and activities of a Philadelphia engineer who has made an outstanding contribution to clarifying and solving the economic and social problems emerging after the turn of the century. Mr. Cooke was a member of the NPA Board of Trustees from 1941 to 1953.

("The Life and Times of a Happy Liberal," by Kenneth E. Trombley. From: Harper & Bros., 49 E. 33 St., N.Y. 16. 1954. 270 pp. \$4)

## Long-Term Market Projections

**I**NCREASINGLY, various industries are engaging in long-term projections of the markets for their particular products. One example is furnished by the timber industry. The Weyerhaeuser Timber Co. engaged the Stanford Research Institute to make a study of the future demand for wood and results have recently been published.

According to the study the use of forest products in the United States is likely to grow much less rapidly than the general growth of the economy. As a result, the total amount of timber delivered to millsites, in cubic feet, is expected to increase only by about 14 percent between 1952 and 1975. And most of this increase will be necessary to meet a doubling of pulpwood re-



quirements: Domestic use of saw-timber is expected to increase by only 3.4 percent.

Most saw-timber is used in construction. The small increase foreseen in saw-timber use, in spite of a large increase expected in construction activity, is the result of two factors: (1) Changing trends in architecture and design are reducing the need for lumber per building; (2) As lumber costs increase with the continuing reduction in the supply of readily available timber, lumber prices will continue to rise relative to those of competing materials—plaster, brick, stucco, steel, etc.

("America's Demand for Wood, 1929-1975." From: Weyerhaeuser Timber Co., Tacoma Bldg., Tacoma 1, Wash. 1954. 94 pp.)

## Economic Development Of Latin America

LATE in November 1954 a special inter-American economic conference was convened at Rio de Janeiro. It brought together for the first time the economic and financial ministers of all 21 members of the Organization of American States. Two reports prepared for the conference—one on economic development in Latin America prepared by the secretariat of the UN's Economic Commission for Latin America, and the second containing specific policy recommendations formulated by a distinguished group of Latin Americans—add up to a comprehensive analysis of the conditions necessary for a dynamic development policy for Latin America.

What must be overcome in Latin America is the substantial gap between popular aspirations and the realization of these aspirations in concrete terms of improved material well-being. Latin America, say both reports, has to surmount the typical obstacles of a lesser developed region—limited income; low consumption; social pressures that cannot easily be restrained and which tend toward immediate demands for higher consumption; exceptional dependence upon the prices of a few export commodities; and deficiencies in technical training.

ALTHOUGH the reports recognize that economic development in Latin America depends fundamentally on the region's own efforts, they indicate that international cooperation in achieving a vigorous policy is essential. What the United States does is particularly crucial.

Latin American public opinion, say the reports, is well aware of the deteriorating economic conditions in their own hemisphere following a postwar period of comparatively great economic progress—"while in certain regions of the world . . . systems of economic organization based on a different set of values" have achieved high rates of investment.

At this point the reports state the case, cautiously but clearly, for an expanded program of international, and specifically U. S.-Latin American, cooperation. "If the economic inequality between the United States and Latin America becomes more pronounced instead of decreasing, greater lack of understanding will result and it will be very difficult to maintain a true continental system of co-operation and solidarity."

### Recommendations for International Cooperation

WHILE both reports make a great many recommendations for consideration by the conference as to what Latin America can do to help set its own house in order, only the reports' major recommendations for international and particularly U. S. cooperation are presented here:

#### *Financing Economic Development in Latin America*

- Increase the volume of foreign investment to a minimum of one billion dollars annually.
- Create an Inter-American Development Fund so that private enterprises in Latin America can tap international sources of capital. The Fund would be set up for 30 years with a nominal capital of \$250 million—half to be subscribed by the U. S. Government and the other half by Latin American governments. Additional U. S. contributions to the Fund for 15 years would total \$50 million per year.

- Expand the investment operations of the International Bank, Export-Import Bank, and Development Fund to between \$650 to \$750 million annually.

#### *Decreasing the External Economic Vulnerability of Latin America*

- Obtain greater stability in the prices of primary products through international agreements and consultation to prevent prices from dropping below certain critical levels.
- Liquidate agricultural surpluses on the world market in an orderly manner by having the U. S. Government consult with interested countries.

*Continued*

### *Trade Policy and Economic Development*

► Underline the importance for Latin America of this country's policy of reducing tariffs.

► Avoid the expansion of high-cost marginal production of raw materials in the United States so as to maintain and enlarge Latin America's production of strategic and other minerals.

### *Technical Assistance*

► Enlarge the resources devoted to technical assistance and give greater continuity to programs which cannot be efficiently carried out under a system that requires annual approval of resources.

Secretary Humphrey at the Rio Conference

SECRETARY of the Treasury George M. Humphrey headed the U. S. Delegation to the Rio conference and was charged by the President with presenting this nation's views on the economic development of Latin America.

Referring to the need for foreign investment in Latin America, Secretary Humphrey in his address at the conference emphasized his view that "our greatest opportunity and our greatest responsibility lies in creating in our several countries those conditions which will give maximum access to the great reserves of private investment capital that are available throughout the world."

He noted that Congress had raised the lending authority of the U. S. Export-Import Bank from \$4½ billion to \$5 billion—also the recent Bank activity in opening up new sources of credit for

Latin America. He also pointed out that Congress will be asked to support U. S. participation in an International Finance Corporation affiliated to the International Bank, with an authorized capital of \$100 million to be contributed by Bank members who wish to subscribe.

As for international trade, it is this country's belief, said the Secretary, that "a strong, stable and expanding international trade is the best single guarantee of economic strength in our hemisphere." While remarking that our tariffs on imports from Latin America already are low, he indicated that the emphasis on expanding trade opportunities "continues to be a fundamental part of President Eisenhower's foreign economic program, which it is his announced intention to press in the forthcoming session of the Congress in January."

("International Co-operation in a Latin American Development Policy." From: Internat'l Documents Service, Columbia University Press, 2960 Broadway, N. Y. 27. 1954. 147 pp. \$1.25.)

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Vol. 2, No. 10



January 1955

Form 3547 requested

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